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ACCOUNTING EDUCATION AND STRENGTHENING OF THE PROFESSION: REPORTS OF INTERNATIONAL AND REGIONAL ORGANIZATIONS

The education of European accountants and challenges of the international economy

Note by the Secretary-General

The following report was contributed by the European Institute for Advanced Studies on Management to promote discussion during the eleventh session of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting. The report addresses the challenges facing accountants, the present educational system and recent innovative programmes designed to meet educational shortcomings. It covers both Eastern and Western Europe and complements another report contributed by the Federation of European Accountants.

As a result of technological advances in communications and increasing ease and speed of travel, business has become more global. Investments and business transactions are being conducted across more national boundaries than ever before. This has meant greater risks of doing business and the attendant need for better and more prompt financial information flowing from the foreign divisions and subsidiaries of transnational enterprises.

The business practices followed in one country often influence the practices followed in the countries with which it trades, and the same is true with accounting principles. The European Community is a regional organization which is empowered to make rules and regulations that harmonize accounting

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* E/C.10/AC.3/1993/1.

principles in more than one country, and even their directives permit the use of certain options as to the accounting principles that can be followed. However, the member countries of the European Community have been slow to adopt its directives into their respective national laws.

Because of differences in languages and laws, accountants who are professionally qualified in one country of the community may practice in another member country of the community only after they have passed examinations on the language and laws of that country. In order to broaden the education and training of accountants in the European Community, it is being proposed that students in each country be exposed to the laws of other members of the community either through studying in another member State or attending courses at their resident university on the laws of other States in the community.

The countries in the European Community are having a dramatic effect on accounting education and training in the central and Eastern European countries. Extensive programmes are being conducted by representatives of the Western European countries on accounting principles and practices to assist educators, practitioners and students to understand the accounting principles followed in countries with a market economy. However, the programmes offered have been primarily on the laws and accounting principles of the donor country and rarely on international standards and practices.

This report should give the Group an insight into the issues as they affect the regions. The Transnational Corporations and Management Division acknowledges with appreciation this contribution.

Annex

THE EDUCATION OF EUROPEAN ACCOUNTANTS AND THE CHALLENGES OF THE INTERNATIONAL ECONOMY

SUMMARY

This report identifies the main challenges facing accountants in Western Europe, such as the expectations gap, creative accounting, the internationalization of business and the completion of harmonization. In Eastern Europe, accountants must be retrained in order to cope with the transition to a market economy. In fact, without a body of accountants capable of serving the market economy, accountancy will become a bottleneck in the system and could slow down or even bring to a halt the transition to the market economy. The educational systems of both Western and Eastern Europe are not, in general, preparing accountants to meet these challenges because they emphasize national law and practice rather than international law and practice; detailed rules rather than basic concepts; and the short term rather than the long term.

The report describes two innovative programmes: Erasmus and Tempus. Erasmus is attempting to develop a European approach rather than a national one. Tempus is attempting to promote the development of higher education and training in Eastern Europe.

CONTENTS

		Paragraphs	Page
I.	WESTERN EUROPE: THE CHALLENGE FACING ACCOUNTANTS	1 - 20	5
	A. Expectations gap	1 - 5	5
	B. Creative accounting	6 - 9	6
	C. Internationalization of business	10	7
	D. Completion of harmonization	11 - 15	7
	E. Conclusions	16 - 20	8
II.	WESTERN EUROPE: THE SYSTEM FOR EDUCATING ACCOUNTANTS .	21 - 40	9
	A. Fragmentation of the accountancy profession	21	9
	B. Consequences for the education of accountants	22 - 31	11
	C. Characteristics of the education of accountants ...	32	12
	D. Role of the universities in the education of accountants	33 - 40	13
III.	THE EUROPEAN COMMUNITY'S ERASMUS PROGRAMME	41 - 45	14
IV.	EASTERN EUROPE: THE CHALLENGES FACING ACCOUNTANTS	46 - 57	16
	A. Comparison with Western Europe	46 - 47	16
	B. Need to reform the accountancy profession	48 - 51	16
	C. Which model to follow?	52 - 54	17
	D. Shortage of teachers	55	18
	E. Legacy of the post	56	18
	F. Urge to join the European Community	57	19
V.	EASTERN EUROPE: THE SYSTEM FOR EDUCATING ACCOUNTANTS	58 - 65	19
	A. The former system	58 - 59	19
	B. Training provided by Western accountancy firms	60 - 63	19
	C. Universities of Eastern Europe	64 - 65	20
VI.	THE TEMPUS PROGRAMME	66 - 70	20
VII.	CONCLUSIONS	71 - 73	22

I. WESTERN EUROPE: THE CHALLENGES FACING ACCOUNTANTS

A. Expectations gap

1. Undoubtedly the greatest challenge that currently faces accountants in Western Europe relates to the "expectations gap". This term refers to the difference between what the public expects of the accountants' audit and what the accountants consider that they should deliver. The term "expectations gap" is a euphemism invented by the accountancy profession; in reality the public considers that the accountants are failing to do a proper job. Examples of what are considered to be such failures are:

(a) A company collapses shortly after the auditor has presented a clean audit report;

(b) The auditor fails to discover fraud or criminal acts on the part of management.

2. It should be noted that although the "expectations gap" becomes apparent in the audit, it relates to both auditing and accounting, for much of the public's disquiet can be traced to the use by accountants of conventions (such as "going concern" and "historical cost") which the public either does not understand or, when it does understand, finds unacceptable.

3. This problem is most evident in the United Kingdom where there have been a number of spectacular collapses of large, apparently financially sound, companies (for example, Polly Peck International and the Maxwell Group). But in fact the same phenomenon exists in many other Western European countries. Many countries were affected by the collapse of BCCI, and there have been similar failures of apparently sound companies throughout the region, from Spain to Sweden. The role of the accountant 's being questioned everywhere. The process started in the United Kingdom and spread to France, Spain and Scandinavia; it has not yet reached Germany, the most important country in the region, but it will undoubtedly do so soon, particularly as the forecast economic downturn begins to take effect.

4. The present economic recession has undoubtedly been a factor. As more and more companies go bankrupt, the injured parties, such as shareholders whose shares have become worthless and workers who have lost their jobs, blame the auditors for their problems. In some cases this is simply because the auditors are highly visible and available scapegoats. However, there have undoubtedly been cases where the deterioration in the economy has led to the collapse of a company which was not strong financially but whose weaknesses were not adequately presented in its accounts. Without the recession, the company would have survived and the inadequacies of the accounts would not have been revealed.

5. The reaction of the accountancy profession to this situation was initially to deny that the auditors were in any way to blame and to try to educate the public on the limitations of the accountant's audit. This has been tantamount to denying that its work was of any real value to the public. In the United Kingdom, this approach was helped by a legal judgement, in the Caparo case,

that was particularly favourable to the auditor. Hence, there is, at present, no danger of the public's dissatisfaction with the performance of the accountant being converted into the awarding of large amounts of damages in liability suits, as has been the case in the United States.

B. Creative accounting

6. Creative accounting is the process whereby, by the choice of appropriate accounting methods, the profits and financial position of a company can be presented as better than they are in reality - i.e. a loss is presented as a profit or the level of debt is understated. Examples of techniques that have been used are:

(a) Capitalization of intangible assets, such as brands and publishing rights;

(b) Off balance sheet financing;

(c) Writing off of costs against reserves (especially goodwill on consolidation and loss on translation of foreign currencies);

(d) Selective accounting for unusual items - i.e. many losses (but few gains) are accounted for as extraordinary items (i.e., "below the line");

(e) Use of complex financial instruments. Although the use of a complex financial instrument does not, of itself, constitute creative accounting, undoubtedly many companies have used the opportunity presented by their novelty and intricacy to understate their costs and debts (e.g., by understating the cost of financing through convertible bonds).

7. Initially "creative accounting" was limited to the United Kingdom, but competitive pressures have led companies in other countries (notably France) to employ the same techniques.

8. There is a clear connection between creative accounting and the expectations gap. The public distrusts accountants because it believes that they are practising creative accounting. The situation has been aggravated by the considerable publicity given to the subject. In the United Kingdom, one particular book Accounting for Growth by Terry Smith, which analysed the accounting methods used in the accounts of companies that had recently failed (such as Coloroll, British & Commonwealth and Polly Peck International) has received a great deal of attention because of the attempt to ban its publication.

9. Creative accounting is a severe challenge to the accountancy profession since it puts in question the accountants' claim that, in choosing the appropriate accounting method, they are exercising their peculiar skill and their professional judgement in a disinterested way in the public interest.

C. Internationalization of business

10. It is commonplace that, for decades, business has been becoming increasingly international. The process has continued unabated in recent years. It gives rise to a number of problems for accountants, notably:

(a) How to prepare the financial statements of companies whose activities span several countries (transnational corporations);

(b) How best to report to the shareholders, creditors, employees etc. of transnational corporations, who may be scattered over several countries;

(c) How best to account for international transactions that involve payments and receipts in different currencies;

(d) How to assure the comparability of financial statements of businesses located in different countries.

D. Completion of harmonization

11. The European Community (EC) has responded to the challenges outlined in the above sections by instituting a programme of harmonization of company accounts, of which the principal components are the Fourth Directive (on the accounts of individual companies) and the Seventh Directive (on consolidated accounts).

12. Although, in principle, the directives apply only to the Member States of the European Community, the other Western European countries have already accepted the obligation to implement them in the negotiations that led to the formation of the "European Economic Space".

13. The objective of the European Community's programmes is to assure that the accounts of companies and groups located in different Member States (and therefore drawn up in accordance with the accounting law and practice of those countries) are sufficiently similar so as to ensure the efficient operation of the European Community's Common Market.

14. However, this objective has still to be achieved. There is still much to be done before the financial statements of European Community companies can be described as "harmonized". There are numerous sources of differences:

(a) In many fields the directives themselves do not provide for adequate harmonization:

(i) They permit alternative accounting treatments through the use of the so-called "options". For example, replacement cost is a permitted alternative to historical cost in those Member States, such as the Netherlands which have availed themselves of the option included in the Fourth Directive;

(ii) The directive's text is often ambiguous or obscure, leading to varying interpretations in different Member States. For example, the procedure to be followed for the purchase method of consolidation, as set out in article 19.1.a of the Seventh Directive, does not make clear whether assets must be restated at fair value;

(iii) The directives fail to deal with many important matters, such as foreign currency translation, leasing and pensions;

(b) The directives are only legally binding on companies when they have been incorporated by the Member States into their national law. Generally the Member States have been very slow in achieving this. For example, Italy did not implement the Fourth Directive (issued in 1978) until 1991 and Ireland only implemented the Seventh Directive (issued in 1983) in 1992. The other Western European countries have not done as much. This will cause considerable problems in certain countries (e.g., Finland) whose present law is fundamentally different.

Moreover, the Member States, by accident or design, have omitted to include in their laws certain of the directive's provisions. For example, Germany has never implemented the requirement, in article 2.5., of the Fourth Directive, that the directive's provisions must be departed from, if necessary, in order to give "a true and fair view";

(c) Even after the directives have been incorporated into national law, there are still numerous problems connected with the application of the law by companies in drawing up their accounts. There remains considerable scope for different interpretations of the law. Moreover, companies may simply not apply that part of the law that they find burdensome. They may adopt this course of action when the sanctions for non-compliance are insignificant or even zero (when the national authorities fail to enforce them). An example of this phenomenon is the failure of German companies (GmbH) to publish their accounts.

15. Harmonization in the EC has been described as less than total in surface appearance and, where it does exist, often only skin-deep. Clearly the completion of harmonization (or even the achievement of the lesser objective of a satisfactory degree of harmonization) is a major challenge facing the accountants of Western Europe.

E. Conclusions

16. Four challenges have been identified: the expectations gap; creative accounting; the internationalization of business; the completion of harmonization.

17. At first glance, the first two have little to do with the international economy, which is the special concern of this report. However, this impression is misleading. Given the increasing internationalization of business, no country is an island unto itself. Its accounting practices spread to its neighbours and trading partners. Examples of this process are:

(a) The adoption of brand accounting by French companies which did not want their balance sheets to show a less favourable position than their British competitors;

(b) The writing off against reserves of goodwill on consolidation by German companies for essentially similar reasons.

18. Hence, all four challenges are largely concerned with the imperative of ensuring that all accountants in all countries (or at least in Western Europe) prepare and audit the accounts of the companies for which they are responsible in a harmonized fashion to the satisfaction of society.

19. The reaction of the authorities and the accountancy profession to these four challenges has had important repercussions for the education of accountants, which is the subject of the section below.

20. Those reactions have had one characteristic in common: an attempt to circumscribe the freedom of accountants to prepare and audit accounts in their own fashion by the prescription of ever more detailed rules, through both laws enacted by the Government and through standards imposed by the profession.

II. WESTERN EUROPE: THE SYSTEM FOR EDUCATING ACCOUNTANTS

A. Fragmentation of the accountancy profession

21. The education of accountants is characterized by its fragmentation among the countries of Western Europe. There is no single European accountancy profession. Instead, there are over 20 professions, since each country has its own professional body. In fact in some countries there is more than one; the extreme situation arises in the United Kingdom, which has no less than six professional accountancy organizations. The position is summarized in table 1.

Table 1. Accountancy professions of Western Europe

Country	Professional body	Abbreviations
European Community		
Belgium	Institut des réviseurs d'enteprise	IRE
Belgium	Institut des experts comptables	IEC
Denmark	Foreningen af Statsautoriserede Revisorer	FSR
Denmark	Association of registered accountants	--
Germany	Institut der Wirtschaftsprüfer	IdW
Germany	Institut der vereidigte Buchprüfer	IdvBP
Greece	Institute of Sworn-in-accountants	SOL
Spain	Register of Auditing Economists	--
Spain	Institute of Sworn Auditors	--
Spain	Register of Qualified Commercial Auditors	--
France	Ordre des experts comptables et comptables agrées	OECCA
France	Compagnie nationale des commissaires aux comptes	CNCC
Ireland	Institute of Chartered Accountants in Ireland	ICAI
Italy	Consiglio Nazionale dei Dottori Commercialisti	CNDC
Italy	Consiglio Nazionale dei Ragionieri e Periti Commerciali	CNR
Luxembourg	Ordre des experts comptables luxembourgeois	OECL
Netherlands	Nederlands Institut van Register Accountants	NIVRA
Portugal	Camâra dos Revisores Oficiais de Contas	ROC
Portugal	Associacão Portuguesa de Tecnicos de Contas	APOTEC
United Kingdom	Institute of Chartered Accountants in England and Wales	ICAEW
United Kingdom	Institute of Chartered Accountants in Scotland	ICAS
United Kingdom	Chartered Association of Certified Accountants	CACA
United Kingdom	Chartered Institute of Management Accountants	CIMA
United Kingdom	Chartered Institute of Public Finance and and Accountancy	CIPFA
United Kingdom	Institute of Chartered Accountants in Ireland a/	ICAI
Other Western European countries		
Austria	Kammer der Wirtschaftstreuhänder	KdW
Switzerland	Schweizerische Kammer der Bücher-, Steuer-und Treuhandexperten	--
Finland	KHT-yhdistys	KHT
Iceland	Félag Löggiltra Endurskodenda	FLE
Norway	Norges Statsautoriserte Revisorers Forening	NSRF
Sweden	Föreningen Auktoriserade Revisorer	FAR

a/ Covers both the Republic of Ireland and Northern Ireland.

B. Consequences for the education of accountants

22. In relation to the education of accountants, this fragmentation of the profession has two principal effects: lack of coordination and national emphasis.

23. In the education of accountants the emphasis is on the laws and practice of the specific country. The examination syllabus is dominated by national accounting laws and standards, national tax law and practice, national audit regulations etc.

24. The fundamental aim of the professional examinations in each country is to qualify accountants to practise in that country. The qualifying authorities consider that they would be failing in their duty to protect the public if they did not ensure that newly qualified accountants had a working knowledge of accounting, auditing, tax and company law as applied in the particular country.

25. A substantial part of the qualifying procedure is devoted to verifying the candidates' knowledge of detailed rules. The quantity of rules (legal provisions, accounting standards etc.) has increased enormously in recent years under the influence of such factors as

(a) The increasing complexity of business life (including the international dimension);

(b) The harmonizing activities of the European Community;

(c) The response of the authorities to the challenge posed by creative accounting.

26. The dominance of national law and practice in the education of accountants reflects the lack of harmonization in Western Europe. As already indicated, harmonization in the field of accounting still has to be achieved; in the fields of audit and taxation, the process has hardly started.

27. The European Community is not content with this situation. In order to fulfil the objective of "freedom of establishment" (one of the freedoms on which the Common Market is founded), accountants who are qualified in one Member State should be permitted to exercise their profession in every other Member State. However, until the Member States' laws and practice in accounting, audit and tax are fully harmonized, this is clearly impracticable. One cannot expect that all accountants have a working knowledge of law and practice in all Member States. Hence the European Community has adopted the second-best solution - granting accountants who have qualified in one Member State the right to practise in another Member State after they have passed a special examination in the law and language of that Member State. So far only a handful of accountants have qualified in this way.

28. Coordination among the various bodies is poor. Within certain countries (e.g., Belgium and France) there is some attempt at coordination, but across frontiers coordination is virtually non-existent. Such coordination as does exist arises from two sources, the EC and the Federation of European Accountants (FEE).

1. European Community

29. The EC's Eighth Directive lays down minimum standards for the qualification of persons who are authorized to carry out the audit of companies. These standards cover such matters as the subjects to be studied, practical experience and independence. Article 4 states the basic principle:

> "A natural person may be approved to carry out audits only after having attained university entrance level, then completed a course of theoretical instruction, undergone practical training and passed an examination of professional competence of university, final examination level organized or recognized by the State."

Article 6 lays down minimum subjects to be studied: auditing; analysis and critical assessment of annual accounts; general accounting; consolidation accounts; cost and management accounting; internal audit; standards relating to the preparation of annual and consolidated accounts and to methods of valuing balance sheet items and of computing profits and losses; and legal and professional standards relating to the statutory auditing of accounting documents and to those carrying out such audits. In so far as they are relevant to auditing, the following subjects must also be covered: company law; the law of insolvency and similar procedures; tax law; civil and commercial law; social security law and law of employment; information and computer systems; business, general and financial economics; mathematics and statistics; and basic principles of the financial management of undertakings.

30. This directive is beginning to have some effect. For example, at present, NIVRA, the professional body of the Netherlands, does not require its members to have any practical experience before qualifying. It is now in the process of changing this rule, so as to comply with the provisions of the Eighth Directive.

2. Fédération des experts comptables européens (FEE)

31. The FEE is the "umbrella" organization which represents the professional accountancy bodies of the Western European countries in such matters as negotiations with the EC and GATT. In the field of education it has limited its activities to the study of the present situation. It has not issued guidelines or recommendations.

C. Characteristics of the education of accountants

32. The requirement that newly qualified accountants have a working knowledge of the law and practice of the specific country in which they qualify entails that the education of accountants is marked by the following characteristics:

(a) It emphasizes national law and practice rather than international law and practice;

(b) It emphasizes detailed rules rather than basic concepts;

(c) It emphasizes the short term rather than the long term, given the need for newly qualified accountants to be immediately operational.

D. Role of the universities in the education of accountants

33. It is understandable that the educational provision of the professional accountancy bodies should suffer from the faults outlined in the section above. It seems highly probable that some professional organizations will become preoccupied with the immediate problem of ensuring a supply of newly qualified accountants who are immediately operational in the local national context at the expense of considering wider matters in the longer run.

34. However, traditionally the role of the universities has been to counter such tendencies. They are meant to cater for the needs of the whole of society and not just those of a particular producer group, to prepare students for life as a whole and not just for their first job, to take in the wider world and not just the limited local horizon.

35. Do the universities supply the ingredients that are missing in the education of accountants? The position in this matter is complex, since one can distinguish three different situations:

(a) Newly qualified accountants with no university education. It is possible to qualify as an accountant without a university degree in many Western European countries, including Belgium, France, Ireland, Italy, Luxembourg, the Netherlands, Spain, Switzerland and the United Kingdom. However, the proportion of newly qualified accountants who have no university degree has declined markedly in recent years. This reflects not so much a desire on the part of the accountancy profession to increase the quality of its intake as the fact that many more school-leavers are going to university;

(b) Newly qualified accountants with degrees but in "non-relevant" subjects such as history or science. This situation is very common in the United Kingdom and Ireland but is virtually unknown in the rest of Western Europe;

(c) Newly qualified accountants with degrees in "relevant" subjects such as business or economics, which generally includes accounting, auditing, tax and other subjects relevant for professional activity.

36. Clearly, in meeting the shortcomings of the traditional professional education of accountants, the universities can only have a significant impact in relation to the students in category (c) above. This category probably represents less than half of the newly qualified accountants in Western Europe. Only in Germany and Scandinavia do all newly qualified accountants possess a "relevant" degree.

37. However, even in respect of the students in category (c), the education of accountants at university suffers from exactly the same shortcoming that characterize professional education - in particular, excessive attention to detailed rules, and emphasis on the national rather than the global situation.

38. There are two principal reasons for this situation. First, the universities are under pressure to produce graduates who will be operationally effective on or shortly after graduation. This pressure comes not only from the employers but also from the students themselves. With the current high levels of unemployment, students are concerned about their career prospects and will deliberately choose the course that offers the best chance of employment upon graduation. A university department that neglects this factor is in danger of attracting insufficient students. This could endanger the department's very survival, given the financial stringency under which most European universities now operate. Secondly, the European universities are still essentially national institutions. Most come under the responsibility of the national ministry of education, and the great majority of subjects taught are oriented towards the country in which it is located. This applies not only in accounting (e.g., national company law, national tax regulations etc.) but for most other subjects (e.g., history, literature, even engineering). The concept of the university as an internationally oriented institution which teaches a corpus of universal knowledge is probably for the vast majority of European universities a myth. It is only relevant for a tiny number of internationally well-known institutions.

39. This does not imply that all universities ignore the international dimension, but rather that universities are national institutions which teach a nationally oriented curriculum. The international aspect is added as an extra, but not in all institutions and not for all students.

40. The national orientation extends to the teaching of ideas and concepts. Thus, in accounting, when basic principles are taught, they will generally be those of some leading theorist whose ideas still dominate accounting thought in that country - for example, Schmallenbach in Germany, Gino Zappa in Italy and Theorore Limperg in the Netherlands. This means that although the best universities on occasion do a reasonable job of teaching concepts (generally in addition to and not instead of the detailed rules), this does not solve the national-versus-international problem. No university provides an accounting education that is based on international principles.

III. THE EUROPEAN COMMUNITY'S ERASMUS PROGRAMME

41. In the field of university education, the main impetus towards change (in a sector that is traditionally conservative) has been provided by the European Community. In November 1990 the European Commission sponsored a conference entitled "Higher education and 1992: planning for the year 2000". (The reference to 1992 is to the completion of the European Community's internal market planned for 31 December 1992.) Following the conference, the European Commission issued a "Memorandum on Higher Education" which made three significant points:

(a) It forecast a growing demand for a European labour force with even higher levels of knowledge and skills;

(b) It called for a new climate of partnership between higher education, industry and the professions, which it saw as essential if the training needs of employers were to be met;

(c) It stressed the need for a stronger European dimension in higher education, involving two elements:

(i) A significant number of students should spend part of their period of study at a university in another Member State. The figure of 10 per cent of the student population has been set as a target;

(ii) For the 90 per cent who would not benefit from study abroad, Europe should be brought to them by way of courses on European subjects, taught in some cases by staff from other Member States.

42. The European Community already offers a number of programmes in the field of higher education. They all have as their fundamental objective the promotion of the European Community by developing a European approach rather than a national approach among students and staff. These programmes cover the whole university curriculum, of which accounting represents a tiny fraction. Nevertheless, in accounting they are not insignificant.

43. The first and the most important of these programmes is the European Community Action Scheme for the Mobility of University Students (ERASMUS). The European Community is famous for the acronyms that identify its programmes and is particularly pleased with this one which identifies its programme with the renowned European scholar of the sixteenth century.

44. The ERASMUS programme provides financial support for the following activities:

(a) Student mobility. In 1991/92 approximately 40,000 students were awarded grants which enabled them to follow part of their course of study (average, seven months) in another Member State;

(b) Staff mobility. In 1991/92 over 3,500 teachers spent some time in a university of another Member State, where they made a substantial contribution to the regular teaching programme;

(c) Curriculum development. Grants are made to assist in the development of new courses with a European dimension;

(d) Short intensive courses. Financial assistance is given towards the cost of short courses on subjects with a multinational theme involving staff and students from several Member States;

(e) Credit transfer scheme. At present there is a pilot scheme in operation, involving some 150 institutions, under which students may transfer credits of one university to another university in another Member State.

45. The budget of the ERASMUS programme for 1991/92 was 73,000 European currency units (ECU), of which most was spent on student mobility grants. Approximately 10 per cent of the programme's activities are in the subject area of business management, of which accounting is the major component. From 1992/93 onwards the ERASMUS programme is being extended to the other countries of Western Europe.

IV. EASTERN EUROPE: THE CHALLENGES FACING ACCOUNTANTS

A. Comparison with Western Europe

46. This part of the report covers countries in Central and Eastern Europe. It excludes the former Soviet Union, except the Baltics. Eastern European countries are in the process of making the difficult transition from a command economy to a market economy. Clearly the situation here is very different from that in Western Europe. The countries of Western Europe have been operating a market economy for decades, in some cases for centuries. They have been able to build up gradually over time a body of accountants capable of serving the needs of the market economy. The state of development of the accountancy profession varies from country to country. In the United Kingdom the principal accountancy institutes are over a century old, but in some other Western European countries they are much more recent developments. For example, Belgium's Institut des réviseurs d'entreprise was founded only in 1953, and Greece's Institute of Sworn-in Accountants in 1955. However, even in these countries the accountancy profession possesses over a generation of experience of serving the market economy.

47. The Eastern European countries are attempting to make the transition to the market economy in a much shorter time. Less than four years have passed since the momentous events of 1989. Consequently, the accountancy profession in the Eastern European countries is at a fundamentally different stage of development compared with that of Western Europe and faces challenges of a quite different order, which are analysed below.

B. Need to reform the accountancy profession

48. There is no shortage of skilled and experienced accountants in Eastern Europe. For example, the Polish Association of Accountants (founded in 1907) has over 100,000 members. The problem is that they are skilled and experienced in the operation of the command economy. For over half a century, up to 1989, the role of accountants was to serve the central planning system by implementing the instructions that emanated from the central authorities concerning the preparation of a multitude of accounting statements: budgets, statistical returns, fund accounts etc. The great majority of accountants had no knowledge or experience of the functioning of a market economy. But a strong and effective accountancy profession is one of the essential elements of a market economy. Accountants play a vital role in providing and verifying the information required for the millions of decisions on the acquisition, employment and disposal of resources on which the efficiency of the market economy depends. This applies both to the internal accountant who serves the enterprise by providing information for management decisions and to the external accountant, one of whose principal roles is to facilitate the functioning of the capital market by adding credibility to the financial statements of enterprises. If the information provided is useful, relevant, timely, and even perhaps "true", then the correct decisions will be taken and the market economy will achieve its objective of assuring the production of the goods and services demanded by the population at the least cost in terms of expenditure of resources.

49. Under the centralized planning systems, accountants were accustomed to following the instructions issued by the central authorities. They were not permitted to exercise their discretion. Because of this, some Western observers characterized the activity as "book-keeping".

50. Therefore, the need is to build up a body of people capable of exercising judgement based on a deep understanding of basic principles. The situation has been described by a Scottish university lecturer with recent experience of Poland in these terms: "The concept of subjectivity, and the resulting flexibility in financial reporting can be a difficult philosophy after more than forty years of centrally controlled, regulated reporting. A knowledge of i..come theory, including revenue recognition, capital maintenance theory, asset valuation and allocation methods appears to be deficient". 1/

51. Hence there is general agreement throughout Europe that the countries of Eastern Europe need to have available in the shortest possible time a corpus of accountants capable of serving the market economy. Accountancy is one of the more apparent "bottlenecks" in the system that could slow down or even bring to a halt the transition to the market economy. There is no dispute over the objective, but there is plenty of controversy over the details of how the objective is to be achieved.

C. Which model to follow?

52. The accountants of Eastern Europe, faced with the imperative to reform themselves so as better to serve the market economy, turned, not unnaturally, for guidance to the accountants of Western Europe. However, there they were confronted with a dilemma, for accountancy in Western Europe is by no means a homogeneous system. Within the limited confines of Western Europe, one can distinguish at least four different approaches to accountancy. The four principal models are:

(a) The British model, based on a strong and relatively independent profession in which the individual accountant is accustomed to exercising his professional skill and judgement in deciding on difficult matters, with the ultimate objective of presenting "a true and fair view" of the enterprise;

(b) The French model, based on the centralized direction of a relatively weak and compliant accountancy profession (at least in comparison with Britain). A principal feature is the imposition on both industry and the accountancy profession of a national chart of accounts, or plan comptable général;

(c) The German model, based on a small but highly educated accountancy profession whose members are dedicated to the application and interpretation of accounting principles embodied in law;

(d) The Dutch model, in some ways similar to the German model (in that it is based on a relatively small but highly educated profession), but the Dutch accountant finds the source of accounting principles not in law but in business economies (Bedrijfseconomie).

53. To a certain extent the above descriptions of the four models are caricatures which are sure to infuriate some citizens of the countries mentioned, and it is certainly true that accountancy in Western Europe has its points of similarity as well as of difference. However, it is also true that there are very substantial differences between accountancy as practised in the various countries of Western Europe. In effect the Eastern Europeans are faced with an embarras du choix.

54. Some Western observers consider that the real problem is that some Eastern Europeans might be unaware of the heterogeneous nature of Western European accounting, believing that it has already been completely harmonized by the European Community.

D. Shortage of teachers

55. The situation with regard to accounting teachers in Eastern Europe mirrors that of the accountancy profession as a whole. There is no shortage of accounting teachers, but unfortunately they are skilled and experienced in teaching accounting as practised in the command economy. The chronic shortage of people with any knowledge of accounting in the context of the market economy has meant that any one who is so qualified is likely to be under pressure to put his/her skills to work in a job that will bear immediate fruit, rather than in teaching. This pressure is likely to express itself in higher economic rewards for activities other than teaching. The situation is further exasperated by the chronic underfunding of the universities in Eastern Europe manifested in very low staff salary levels (a Polish university lecturer's salary is about $180 per month), very large classes, and a general lack of resources for books, journals, computers, etc.

E. Legacy of the past

56. A major problem that faces the Eastern European accountancy profession is what to do about the hundreds of thousands, perhaps millions, of accountants whose principal skills and experience lie in the operations of the command economy. These people have suddenly found that the skills that they developed during their working lives have been rendered obsolete. Many are understandably bitter to find that apparently no value is attributed to their particular abilities. In considering possible solutions to their problem, two factors must be taken into account:

(a) The very large numbers involved: certainly in the hundreds of thousands;

(b) The age profile of the group, which ranges from the 20s to the 60s.

These factors make any easy solution of the problem unrealizable.

F. Urge to join the European Community

57. Throughout Eastern Europe, Governments and the public are convinced that their countries should join the European Community as soon as possible. The reasons are partly political (to reassert their identity with Europe) and partly economic (with the collapse of the CMEA trading system, they seek new markets in the West). These countries are prepared to take any steps necessary to assure their acceptance by the European Community. In the field of accounting, this has been taken to mean the implementation of the EC's directives. Thus, certain countries have simply incorporated the text of the directives, verbatim, into their law. However, whereas it is relatively easy to pass a law, it is much more difficult to develop a body of accountants capable of understanding and applying the law.

V. EASTERN EUROPE: THE SYSTEM FOR EDUCATING ACCOUNTANTS

A. The former system

58. Under the ancien régime there was a highly developed and relatively efficient system for educating the large numbers of accountants required to service the command economy. The university departments provided courses in accounting and related subjects, such as statistics and applied economics, for a small number of students who found employment as accountants in government offices and State enterprises. Most accountants were trained in technical schools, where the emphasis was on the completion of the accounting and statistical statements required by the central authorities. There was a considerable amount of "on-the-job" training since many chief accountants of State enterprises had worked their way up from junior positions.

59. This system is no longer relevant since everyone doubts the credibility of its output.

B. Training provided by Western accountancy firms

60. In its place there is a confused jumble of uncoordinated, ad hoc training measures, set up mainly for short-term reasons: to produce as quickly as possible some operational accountants. The principal providers of training are the Western accountancy firms, backed, to a greater or lesser extent, by their Governments.

61. The four accountancy models already described play an important role here. Each Western European country was quick to appreciate that, if it could persuade an Eastern European country to adopt its particular accounting model, it would have a competitive advantage over its other Western European rivals, not only in accounting but across the whole of commerce and industry.

62. The leading protagonists in this competition have been the United Kingdom and France, followed at some distance by Germany, the Netherlands and the other Western European countries. A major instrument in this contest to secure the adoption of one's own accounting model has been the provision of training, either offered free or highly subsidized. Most of the training is provided by

Western accountancy firms, much of it for their own staff, but some in the form of seminars and training courses that are open to a wider audience. Very little of this training is effected in the local language: almost all is in the language of the Western European trainer, with English predominating.

63. The training provided by the Western firms in Eastern Europe suffers from many of the faults already identified in relation to Western Europe - in particular emphasis on the short term, and emphasis on the application of detailed rules at the expense of consideration of general principles.

C. Universities of Eastern Europe

64. In principle the universities should be able to provide the missing elements in the education of accountants. However, the Eastern European universities suffer from the same problems that characterize the whole of the Eastern European economy, of which the most critical are:

(a) Lack of suitable qualified staff;

(b) Very low salary levels;

(c) Chronic shortage of resources.

65. Generally, universities are conservative institutions in which the process of reform can take decades or even generations. However, certain institutions have made very substantial efforts to provide education for accountants that is appropriate for the changed condition in their countries. Details on some of these programmes are given below.

VI. THE TEMPUS PROGRAMME

66. The European Community reacted quickly to the events of 1989 by instituting a number of programmes to help Eastern Europe. In relation to universities the relevant programme is the Trans European Mobility Programme for University Students (TEMPUS). In essence TEMPUS is an extension of the ERASMUS programme to Eastern Europe; however, there are certain differences in detail, and TEMPUS is separately administered, having its own offices and staff.

67. The objectives of TEMPUS are to promote the development of the higher education and training systems in the countries of Central and Eastern Europe. (In 1992, the programme covered the then States of Albania, Bulgaria, Croatia, Czechoslovakia, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, and Slovenia) and to make a significant contribution to the medium- and long-term development of both the higher educational systems and the process of economic and social restructuring in the countries concerned.

68. The principal instrument used to achieve these objectives in the Joint European Project (JEP), in which universities in Western Europe combine with universities in Eastern Europe. For example, the Copenhagen Business School and Copenhagen University (Denmark) and the University of Sterling (United

Kingdom) cooperated with the Prague School of Economics (Czechoslovakia) in an attempt to restructure financial and accounting education in the Eastern European institution. At present, there are 637 JEPs in operation. They cover all university subjects, as shown in table 2. They involve universities in all European Community member States, other than Luxembourg, and in all eligible Eastern European countries, except Croatia. An analysis of the participation in projects in Eastern Europe is presented in table 3.

Table 2. TEMPUS joint European projects in operation in 1992

Subject	Number of projects	Percentage of total
Management, business administration and applied economics	109	17.1
Medical sciences	49	7.7
Applied sciences, technologies and engineering	171	26.8
Modern European languages	37	5.8
Agriculture and agro-business	39	6.1
Environmental protection	49	7.7
Social and economic science	30	4.7
Education and teacher-training	28	4.4
Natural sciences	39	6.1
Law	13	2.1
Other	73	11.5
Total	637	100.0

Table 3. Participation of Eastern European countries in TEMPUS

Country	Number of projects
Albania	9
Bulgaria	163
Czechoslovakia	334
Hungary	376
Latvia	19
Lithuania	12
Poland	446
Romania	185
Slovenia	72

69. The basic aim of these JEPs is the reform and restructuring of the Eastern European universities that are members of the project. To this end, the European Community provides funds for the acquisition of equipment; visits to Eastern European universities by the staff of Western European universities, to help in such matters as curriculum development and the teaching of courses; visits to Western European universities by the staff of Eastern European universities (e.g., to attend retraining courses and to gain experience of modern administrative methods); and exchanges of students.

70. Initially the lead in setting up and coordinating a JEP was taken by a Western European university which was responsible for the contractual arrangements with the European Community. However, from 1992 onwards the rules have been modified to permit an Eastern European university to be the coordinating organization of a JEP.

VII. CONCLUSIONS

71. The following characteristics of the education of accountants in Western Europe were identified:

(a) Emphasis on national law and practice rather than international law and practice;

(b) Emphasis on detailed rules rather than basic concepts;

(c) Emphasis on the short term rather than the long term.

72. A similar situation was noted in Eastern Europe. This situation is the result of the need to produce accountants who are able to operate immediately and effectively in the local economy. The economic situation is a major factor. In Western Europe, the economic recession has strengthened the incentive for students to choose an educational path which is more likely to

lead to a job on graduation. In Eastern Europe, the chronic shortage of accountants who are capable of operating in the market economy places a premium on short-term measures to produce accountants who can be set to work immediately.

73. The universities are not playing their traditional role of making good the defects in professional education. The economic situation is probably a factor here, since, given the lack of an assured level of resources in the longer term, the universities are also under pressure to produce immediate results.

Notes

1/ Clare Grant, "Changes in university-level accounting education in Poland", European Accounting Review (December 1992).